Nebraska Public Employees Retirement Systems
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MEMORANDUM

TO: State Agency Employer Contacts

FROM: **Nebraska Public Employees Retirement Systems**

DATE: April 24, 2006

RE: Retirement Contributions on Leave Payout and Other Important Items

Here are several reminders and new information regarding your responsibilities as your agency's Employer Contact with the State Retirement Plan. NPERS appreciates your continued assistance. If you have any questions or need further information, please contact NPERS at the numbers listed at the end of this memo.

State Retirement Plan

Retirement Contributions on Unused Leave Pay-Out -- When a retirement plan member terminates employment, you must *take retirement contributions on any pay-out of unused sick and vacation leave* and submit to NPERS together with the employer match. You should compute retirement contributions on the *gross* amount of the final payout including unused vacation leave and, if the individual is age 55 or older, on the pay-out of one-quarter (up to the maximum days allowable) of sick leave. These deductions must be withheld as part of or no later than the member's **final paycheck**, as there are no means to recoup missed contributions after an employee has terminated.

For instructions, see your Manual for State Agencies' Employer Contacts that NPERS distributed last spring, Chapter 2, page 2-1 under "Contribution Rates." If you do not have a copy of the manual, call NPERS to request one, or you may print it from our web site at **www.npers.ne.gov**.

Rehires – If you have an employee who is rehired in less than 120 days of termination, NPERS does not consider this to be a bona fide break in service. The employee must continue contributions to retirement, *regardless of any change of status as a permanent or temporary employee*. Further, if the employee received a distribution of their retirement account prior to a return in less than 120 days, they must repay the distribution to the retirement system.

Plan Participation and 4.8% Contribution Rate – LB 366, passed this year, is important legislation that is a great benefit to employees and will help make your (and our) job easier.

- **Immediate Participation** -- Beginning **January 1, 2007**, you are to *immediately* enroll permanent, full-time employees in the State Retirement Plan *upon hire*. You are also to enroll immediately any employee who was not yet eligible under the old law (had not yet worked 12 continuous months). (Permanent, part-time employees age 20 may exercise the option to begin participation immediately.) This new requirement will significantly reduce the number of missed or delayed enrollments, audit findings and makeup contributions.

- **Vesting –** With the new law, beginning **January 1, 2007**, vesting will occur after **three** years of plan participation.

- **Contribution Rate –** Beginning **January 1, 2007**, the contribution rate will be a flat **4.8%** of annual compensation. (Eliminated is the 4.33% contribution on the first $19,954 of annual compensation with a step-up to a higher rate.)

- **Meanwhile, When to Begin Deductions –** *Until* January 1, 2007, an employee is eligible to join the Plan when they have completed 12 continuous months of employment. In determining when employment reaches 12 continuous months, please observe the day of the month the employee began working and compare actual work days to calendar days You should begin deductions in the *first full pay period* after the employee is eligible.

  Example 1: An employee begins employment May 23, 2005, is paid bi-weekly, and completes 12 continuous months of employment on May 23, 2006. The employee's entry date for the Plan would be June 1, 2006. You should begin deducting contributions in the first full pay period in June 2006.

  Example 2: An employee begins employment May 2, 2005, and works all *working* days of May, but is not necessarily employed all *calendar* days. He/she will complete 12 continuous months of employment by April 30, 2006, so their entry date for the Plan would be May 1, 2006, and you should begin deducting contributions the first full pay period in May, 2006.

NPERS will continue to provide information to Employer Contacts on the new provisions in LB 366, as the January 1, 2007, deadline approaches.

Address Changes – One of the most important records maintained for plan members is their current address, without which we cannot mail their account statements or other timely information. Through payroll reporting, your role in providing current addresses to NPERS is critical. Please verify with each of your employees that you have their current address, and follow-up with them periodically to ensure you submit correct addresses to NPERS.

Current Forms, Web Site, Manual Updates - Please be sure to periodically check the NPERS' web site at **www.npers.ne.gov** to ensure you are using the most current forms and for posted notices of important information. Updates to the Manual for Employer Contacts will be distributed to you in July 2006, and will also be available on our web site at that time.

Deferred Compensation Plan

Deferred Compensation Plan (DCP) – We continually try to raise awareness and understanding of the *voluntary* Deferred Compensation Plan. DCP is designed to provide an employee with a supplementary retirement income by deferring a part of his/her salary and thereby deferring taxes until a later date, such as retirement.

With the cost-of-living raise state employees will receive in their July paychecks, it is timely to remind employees of this voluntary plan to save more for retirement. Instructions on DCP are in your Manual for Employer Contacts, Chapter 1, page 1-8. Please be sure to give each new employee *upon hire* a packet containing:

- DCP Member Handbook
- DCP Enrollment Form
- Beneficiary Designation Form
- Annual Investment Report

These items are all on the NPERS' web site, or call our office to request supplies. We also encourage you to give DCP information to employees *again* as you enroll them in the *mandatory* State Retirement Plan.

When a DCP Participant Turns Age 50 or Retires – Several very important provisions in DCP are described in the DCP member handbook on page 2. Please help ensure your employees are informed of these provisions, and encourage them to call NPERS for assistance.

- **Deferring Leave Pay-Outs to DCP** -- When an employee terminates employment, if he/she participates in DCP, they may *elect to defer* into their DCP account accumulated vacation pay or back pay, and one-fourth of accumulated sick pay if they are age 55 or older. To be eligible, he/she must sign an agreement to defer such amounts *prior to the calendar month* in which they would otherwise receive such amounts, subject to the annual catch-up limits.

- **Age 50 and 3-Year Catch-up Provisions –** If DCP members have not contributed the maximum amount allowed, they may catch those contributions up, either starting at age 50 or when they are within three years of retirement. The instructions are very specific and are outlined in the DCP member handbook on page 2.

- **Minimum and Maximum DCP Contributions Amounts –** The *minimum* amount an employee may defer/ contribute to DCP is $25 per month. The *maximum* is the lesser of 100% of annual compensation less mandatory retirement contributions or an annual dollar amount as established by the IRS, which in 2006 is $15,000.

Again, if you have questions on any of the above information, please contact NPERS at:

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